Hand Delivered

January 3, 2003

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, Massachusetts 02110

Re: Accounting Treatment for Pension Benefits

Dear Ms. Cottrell:

Boston Gas Company d/b/a KeySpan Energy Delivery New England ("Boston Gas" or the "Company") hereby requests approval from the Department of Telecommunications and Energy (the "Department") of an accounting treatment for pension costs that would mitigate potential adverse effects on the Company's capitalization, credit quality and borrowing costs resulting from substantial declines in the equity markets. On December 20, 2002, the Department approved similar requests made by Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company, NSTAR Gas Company (collectively, "NSTAR")[1] and Fitchburg Gas and Electric Light Company ("Fitchburg").[2]

As noted in the NSTAR and Fitchburg filings, the U.S. economy has experienced three consecutive years of declining equity-markets and falling interest rates. The impact on Boston Gas with respect to its obligations for employee pensions is significant.[3] To address funding issues created by market conditions, Boston Gas contributed $61 million into its pension trust funds in the past two years. In 2002, Boston Gas contributed $42 million, the maximum tax-deductible amount, to its pension trust funds. These contributions have significantly exceeded the level of pension expense allowed in Boston Gas' last rate proceeding ($1.3 million).[4]

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[1] NSTAR, D.T.E. 02-78 (2002).

[2] Fitchburg Gas and Electric Light Company, D.T.E. 02-83 (2002).

[3] Unlike NSTAR and Fitchburg, Boston Gas' request relates solely to pension expenses. Post retirement benefits other than pensions ("PBOP") expenses are already accounted for through a deferral mechanism subject to true-up in a future rate case. Thus, no change in accounting methodology is required with regards to PBOP's. See; Boston Gas Company, D.P.U. 93-60 (1993) at 214.

[4] Boston Gas Company, D.P.U. 96-50 (Phase I) at 81-82 (1996).

Moreover, it is the Company's expectation that both the maximum tax-deductible amount and the FAS 87 expense will fluctuate significantly over the next few years in reaction to changing market conditions.[5]

Despite making significant contributions, Boston Gas faces an accounting deficiency in its pension fund created by the combination of the reduced value of the assets held in trust to meet pension obligations and an increase in the benefit obligation.[6] Without an accounting ruling from the Department, Boston Gas could be required to record on its books a non-cash charge to Other Comprehensive Income/Loss ("OCI"). With approval of this accounting ruling from the Department, Boston Gas will instead defer the recognition of the Additional Minimum Liability ("AML") as a regulatory asset for eventual recovery from customers.[7]

The Department has consistently recognized that prudently incurred pension costs may be included in utility rates. Given the volatility of this extraordinary and recurring expense, the Company will propose in a future proceeding a recovery mechanism designed to provide for the reconciliation between the amount allowed in rates and the FAS 87 expense recorded on the Company's books. As indicated by NSTAR, the approval of such a mechanism will ensure that the Company's customers pay in rates no more than the Company's actual pension liability, and the Company will collect only the amount of its actual pension obligation. This type of reconciliation will also stabilize the recovery of the expense from customers while allowing the Company to avoid adverse financial impacts. Absent such a mechanism, the volatility and magnitude of Boston Gas' pension expense and funding requirements will distort the annual reporting of the Company's operating results and could result in the over-collection of costs from customers.

To avoid this result as well as the year-end charge to equity of AML, the Company requests that the Department recognize the recoverability of these costs in future rates (as determined by the Department in the Company's next rate proceeding) and that it issue an accounting ruling permitting the Company to defer the difference between the level of pension expense that is included in rates and the amount that must be booked in accordance with FAS 87 in 2003. Specifically, the Company requests that it be authorized to implement the following accounting practices:

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5 Statement of Financial Accounting Standard ("FAS") No. 87 governs accounting practices for pension expenses.

6 Lower interest rates increase the present value of the benefit obligation to employees in the future.

7 The Additional Minimum Liability ("AML") represents the amount by which the Company's pension plan obligations exceed the value of the assets in the trust fund at the end of each calendar year.

(i) Until otherwise ordered by the Department, the Company will defer, and record as a regulatory asset or liability, the difference between the level of the pension expense that is included in rates and the amount that must be booked in accordance with FAS 87, and

(ii) Until otherwise ordered by the Department, the Company will defer as a regulatory asset the amount of its current and future AML to reflect the Company's ability to recover in rates over time its actual pension liability.

Thank you for your attention and consideration of this request.

Very truly yours,

Joseph F. Bodanza

JFB/dmo

cc: Joseph Rogers, Assistant Attorney General
Paul G. Afonso, General Counsel
Kevin Brannelly, Director, Division of Rates and Revenue Requirements